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THE WARTIME PRICES AND TRADE BOARD

This review of world inflation is a comparative summary of some of the information available on inflationary conditions and the methods of wartime economic control taken to combat them in a number of countries.

We are distributing this information to a limited list as we feel that it may be useful as background information to those who have occasion to write or to speak on the general subject of economic controls.

It should be used with discretion in this way as obviously our sources of information cannot yield complete information, and in some cases statements cannot be completely verified or, indeed, are a matter of opinion.

The material was prepared by the Economics Branch of the Wartime Prices and Trade Board as general background information, and it does not in any sense represent an official government review.

A. L. Cawthorn Page,
Director,
Information Branch.



World Inflation with Special Reference to Price and Supply Controls

The economic strain involved in the waging of war has always given rise to price instability and inflation. As wars have come to be fought with more and more of the organized power of the state this pressure on prices has become increasingly serious. Germany and her allies suffered most from the inflation caused by the last war but no country in the world entirely escaped its disruptive effects. This war is no exception to the historical rule, and because it is so nearly a "total" war, involving such a large part of the total productive effort of the belligerent countries, the economic forces which threaten to create inflation are more powerful than ever before.

During 1943 about half of Canada's national income was going into direct war uses, as compared with a maximum war effort of 12% to 15% of national income reached during the fourth year of the last war. A similar portion of national income, approximately 50%, in the U.S. and the U.K. is being diverted to the war. While the percentage of national income going into war uses is a convenient yardstick for comparing the war efforts of different countries it is not a complete indication of the resultant pressures on the civilian economy. In countries with high pre-war living standards and large reserves of manpower, natural resources and productive facilities, a substantial war effort has been possible without a serious drain on civilian supplies and, consequently with less serious inflationary pressures. This is particularly true of the U.S., where the pre-war level of consumption was higher than in Canada or the U.K. and gross national product has increased by about 130% between 1939 and 1943. Canada, to a lesser degree, has made part of her contribution to the war out of an increase in output and has been able to maintain civilian supplies reasonably well. In the U.K. a much greater part of the war effort has been made by reducing current living standards.

War on this scale inevitably creates increased purchasing power, shortages of civilian goods, and may lead to an inflationary spiral of prices and incomes. Anti-inflation controls have been necessary in Canada and in the other belligerent countries both to assist the diversion of resources to war and to spread the burden of war more equitably among the various groups of the population.

In addition to direct controls over prices, all countries which have made a concerted effort to prevent inflation have found it necessary to reduce consumer demand, to hold down costs of production and to regulate the distribution of goods in short supply. All of these controls are inter-related. High income taxes and government borrowing from the public are essential to reduce the pressure of excess purchasing power which would otherwise be used to bid up prices. Such a fiscal policy has the added advantage that it distributes the financial burden of the war in accordance with ability to pay. Controlling prices involves holding down production costs by means of wage control, simplification of industrial practices, and controlling costs of imported materials. Though wage control is essential to the success of price control it is also dependent on it, for it would be quite impracticable to hold wages and salaries if living costs were rising sharply. Control of salaries and wages also aids in checking the pressure of increased purchasing power. To simplify industrial practices most governments have cut out non-essential designs and "frills" and have rationalized distribution; others have gone further and standardized end-products and concentrated production in fewer or more efficient plants. The principal method of offsetting higher import prices, which result both from higher prices abroad and higher wartime shipping costs, has been subsidy payments, frequently through bulk purchasing by government agencies. The distribution of materials in short supply has been controlled by direct allocation and priority systems; scarce consumer goods have been rationed. Consumer rationing, because it limits demand, simplifies the problem of controlling prices of the rationed goods.

Thus the wide variety of wartime anti-inflation controls are all parts of a single whole - effective price control is impossible without a determined taxation and borrowing policy, wage control, subsidies and distribution control, while these measures are in turn inter-related. Most of these controls made their appearance during the last war when the scope of the war effort was far more limited. Because they were, for the most part,

introduced belatedly and because the necessary administrative machinery and techniques of control were undeveloped they did not succeed in preventing a serious rise in price levels.

During the present war the Canadian people have realized the necessity of wartime controls and have supported a strong policy of economic stabilization. What is not so well known is that every other country in the world has been faced with similar problems and has adopted similar methods of meeting them, with varying degrees of success.

While an extensive study of the inflationary effects of the war in all countries would be an extremely ambitious undertaking, some of the basic problems are world-wide and lend themselves to general description. Likewise, there is a good deal of similarity in the economic controls which various governments have introduced to further the prosecution of the war and to prevent inflation. But conditions differ so widely that all countries can not be treated on a strictly comparable basis. The following notes are not, therefore, intended as a complete country-by-country comparison. They are designed rather to point up a few of the more interesting contrasts and similarities and to indicate how Canada has fared, in relation to other countries, in the world-wide battle against inflation.

PRICES AND PRICE CONTROL

Every country in the world has experienced some rise in prices since the first half of 1939, ranging from about 15% in New Zealand to something over 20,000% in parts of China. In countries occupied by the enemy or waging war on their own soil the increases have, in general, been the most serious. In countries outside the war zone the extent of price rises has varied with the availability of supplies, the extent of the war effort and the determination of the government and people to combat inflation.

In every country there has been some degree of economic control, varying in extent and effectiveness. The pattern is similar in most cases and includes control of purchasing power by heavy taxation and by government borrowing, control of rentals, wages, and prices, and the rationing of scarce consumer goods. The Axis countries had economic controls in effect long before the war - Germany, for example, issued a "price stop" decree in 1936. The democracies have instituted such controls only when and to the extent that the effects of war have made them necessary.

In all countries where a serious effort has been made to stabilize prices a more and more inclusive programme of price control has been developed. For example, both the United Kingdom and Australia at first adopted the policy of tight control only for rents and the more important staples. As time went on, however, direct price control was steadily extended so that what were originally systems of selective price control are now approaching in effect the over-all form of price control first instituted by Canada. Indeed, Australia has formally adopted an over-all ceiling. In both Australia and Great Britain, as well as in many other countries, price control is buttressed by subsidies, wage control and a fiscal policy designed to reduce purchasing power. But Canada's early imposition of an over-all ceiling has had a very important advantage - it prevented prices of a great many goods from reaching high levels before being brought under control.

Canada has controlled inflation at least as successfully as any other country. Using cost of living indexes as a guide (with the first 6 months of 1939 as a base) the Canadian rise of 18% since mid 1939 appears to be the fifth best record in the world, but in fact it may well be the best.

Official indexes are available for most countries but they do not, in most cases, reflect the actual rise in prices nearly as accurately as does the Canadian index. Taking into consideration the commodities included, the price data collected and the methods of calculation, the U.S. index is probably the only one which compares with the Canadian in accuracy. The others can be regarded as reflecting only roughly the general trend.

The following table shows Argentina, Germany, New Zealand and Uruguay with a smaller cost of living rise than Canada. Two of these, Argentina and Uruguay, have not had to combat the economic effects of a large war effort,

moreover, the Argentina index covers only Buenos Aires and the Uruguan index only Montevideo; neither is regarded as a reliable indicator of price changes. The German cost of living index shows an increase of only 12% but, since it is not honestly calculated and since many of the commodities included are not available or are rationed at very low levels, it cannot be taken seriously. The only serious competitor with the Canadian record is New Zealand whose index shows a rise of 15%. But even the New Zealand index is not strictly comparable with the Canadian, because it has been based on an "iron ration" concept of living costs since December, 1942. This new wartime index, which replaced one more like the Canadian index, measures price changes in only essential foods, fuel, rent and a list of standardized "wartime models" of other consumer goods. It has not increased but prices of non-essentials, and of non-utility lines of clothing, footwear, etc., are not reflected in it and are not so strictly controlled.

Cost of Living Index

(First 6 months of 1939 = 100)

<u>Country</u>	<u>Date</u>	<u>Index</u>
(1)		
Argentina (Buenos Aires)	April '44	109
Germany	May '44	112
Uruguay (Montevideo)	Mar. '44	113
New Zealand	Mar. '44	115
Canada	Aug. '44	118
Australia	Feb. '44	122
U.S.A.	July '44	127
S. Africa	April '44	129
U.K.	Aug. '44	131
Japan (Tokyo)	Nov. '43	145
Sweden	May '44	149
Switzerland	May '44	152
Peru (Lima)	May '44	165
Norway	April '44	153
Denmark	Mar. '44	157
Newfoundland (St. John's)	July '44	163
Eire	Feb. '44	171
Spain	Mar. '44	173
Mexico	May '44	199
Finland	May '44	200
Chile (Santiago)	April '44	209
India (Bombay)	Dec. '43	237
Egypt (Cairo)	April '44	267
Iceland (Reykjavik)	April '44	270
Turkey (Istanbul)	Dec. '43	340
Palestine (Arab markets)	May '43	348
Iran (Tehrehan)	May '44	867
China (Chungking)	July '44	21000

(1) Where the index covers one city only the name of the city is given.

Source: League of Nations, "Monthly Bulletin of Statistics" except for a few countries where more recent figures were available from official sources. The index shown for China is prepared by the University of Nanking.

SUPPLIES AND RATIONING

The shortages of consumer goods which have resulted from the diversion of labour and materials to war uses have necessitated rationing of consumer goods in a large part of the world. Staple foods have usually been rationed first and in some countries are the only commodities rationed. Price control helps to prevent mal-distribution of goods in short supply since it does not allow the prices of necessary goods to rise beyond the reach of people with limited means. However, when demand is substantially in excess of supply, direct control of distribution may become necessary.

Fortune has favoured Canada and the United States in that they are outside the war zone and, undisturbed by enemy action, have been able to achieve a vast increase in production. Yet, though there have been no acute shortages such as those suffered in China, India, or occupied Europe, supplies of a variety of consumer goods have been insufficient to meet a much expanded demand and control of distribution has been necessary to ensure equity. In Canada, coupon rationing is adopted when no other means of controlling distribution will meet the problem. The rationing techniques have been simple and have applied to a relatively small list of foods, gasoline and a few durable goods. In the United States a wider range of foods has been rationed on a more complicated points system, while gasoline and durable goods are rationed very much as in Canada.

In most of the other American countries distribution has not been so well controlled. In a few cases, Newfoundland for instance, shortages have been particularly aggravated by wartime developments but in almost every case, the mal-distribution of supplies reflects inadequate controls and often lack of public co-operation.

Similarly in the countries where shortages have been far more serious than in the Americas, the effectiveness of the distribution system has varied widely. Britain has met a serious food problem by a well co-ordinated policy of controls. Domestic food production has been stimulated; government purchase and sale has been used to control the prices and distribution of all imported foods and home-produced staples; a comprehensive rationing program has been applied to ensure that the nutritional requirements of all groups of the population are met.

While there are official rations in all the occupied countries of Europe, the drain of supplies to Germany frequently makes it impossible to fill them and consumers are forced to resort to black markets. The result is that supplies go the highest bidder. Germany makes every effort to meet her own rations and while they are very stringent they have, at least until recently, been far better enforced than in occupied Europe. Of necessity, the Russian diet has been inadequate, perhaps only slightly better than in other parts of Europe, but communal feeding has been highly developed and rations are honoured either in the form of meals in factory canteens or food sales through state-owned shops. The acute shortages of food in Russia, Germany and the occupied countries has necessitated rationing of almost all foods, including bread, potatoes, fresh fruits and vegetables and restaurant meals. Since there is no buffer supply of unrationed foods to meet the extra nutritional needs of some groups of the population, rationing is on a differential basis with the quantities allowed depending on age and occupation. A notable exception is Greece, where the lack of food makes regular and comprehensive rationing impossible.

WEEKLY FOOD RATIONS

The following table of food rations in Canada and a few other countries, has, for purposes of comparison, been made up in terms of actual quantities of food per normal consumer per week. Only rationed foods are mentioned and for those rationed in specific amounts, such as sugar, these amounts are given; for points rationed foods a typical budget has been worked out - to translate the points into actual quantities. For foods rationed locally, it is impossible to estimate allowances. However, the fact that they have had to be rationed indicates that they are in short supply. Some remarks on total food supplies in each country will round out the picture.

In countries like Canada, the United States, Australia and New Zealand, which normally produce most of the food they need, rationing was introduced first for imported foods, such as sugar, tea and coffee, and then for foods for which demand has increased sharply during the war, e.g. meat and butter. Both Australia and New Zealand, when introducing butter rationing, announced that it was made necessary by larger shipments to the U.K. - to ensure the British people their 2 oz. a week.

The United States has rationed a wider range of foods than we have in Canada, such as canned and dried vegetables, lard and margarine. Actually, however, the per capita food supplies in the two countries are very nearly equal. Canned vegetables, it is true, are not rationed in Canada, but they are in short supply, and distribution is controlled at the trade level. In both countries fresh fruits and vegetables, potatoes, bread, flour and cereal products are unrationed and available in adequate quantities.

Newfoundland and Eire have rationed fewer foods than we have, but on the whole we fare better than they do since their total food supplies are much shorter. Eire's imports were reduced as shipping was diverted to war uses, and Newfoundland's demand for food supplies jumped as the number of men in the armed forces stationed there increased. Newfoundland has had to rely almost entirely on imports to meet the increased demands, while Eire has tried to stimulate domestic food production though the attempt has been hampered by lack of imported fertilizers, farm machinery and feeds.

Total food supplies in Britain, although much lower than in the American countries, have never become so low as to require the introduction of differential rationing which is the rule in other European countries. There has been throughout the war a fairly adequate buffer of unrationed foods - bread and flour, potatoes, fresh vegetables and fish - to round out the ration. The school and in-plant feeding programs have been expanded to provide a hot meal a day for children and industrial workers. Children also get milk in schools. "British restaurants" have been set up by the government to provide nourishing meals at low prices for the lower-income groups and, indeed, all restaurant meals are unrationed. Thus it has been possible to distribute sugar, fats, cheese, preserves, sweets and points foods equally to everybody (children under 5 get no tea and half of the adult meat ration). The protective foods have, however, been rationed strictly according to nutritional requirements; infants, children and expectant mothers get first claim and the largest amounts of milk, eggs, oranges, cod-liver oil and vitamin preparations.

Germany's food supply, although much better than any other country on the Continent, is yet so short as to necessitate differential rationing. The population is divided into different groups receiving different rations according to their needs. People are classed by age as infants, children, adolescents and adults, and adults are classed by occupation into normal consumers, night and long-hour workers, heavy workers and very heavy workers. The Quantities shown on the chart are those for the normal consumer - and it must be emphasized, there is no buffer of unrationed foods to fall back on - bread, potatoes, fresh fruits and vegetables are all rationed. The heavy worker gets 134 oz. of bread as compared with the normal consumers' 85 oz. and 21 oz. of meat, compared with 9. Young children get less bread, meat and fats, but more milk than an adult; older children and adolescents, more bread, meat and fats than the normal consumer.

Everything is rationed in the occupied countries; the rations are meagre and are frequently unobtainable. The differentials set up in Poland between pro-Nazi, national and Jewish Poles are typical of Nazi rule in conquered territory. Food production has fallen, and the German requisitions are heavy. The peasants hoard their food to prevent German requisitions or sell it on the black market; those in the cities find little food at legal prices; without money or country friends, life is slow starvation.

WEEKLY FOOD RATIONS IN SEPTEMBER 1944

COUNTRY	Sugar	Fats (lb)	Meat, Cheese	Beverages	Others
Canada	8 oz.	7 oz. butter		2 oz. tea or 8 oz. coffee Maximum allowance of 1-16 oz. tin evap. milk a day for infants	Canned fruit, jam, molasses, honey and syrups rationed - e.g. 12 oz. jam and 20 oz. canned fruit a month
United States	8 oz.	4 oz. butter and 8 oz. margarine	Best grades of beef: lamb and all grades: pork, roasts, steaks and chops rationed. All other meats un- rationed. Hams, canned fish, cheese: also rationed.	Canned milk - points ration, alternate to meats-fats, permits purchase of about 1-16 oz. tin per day for infants	Canned fruits and juices, canned tomatoes and tomato juice rationed
United Kingdom	8 oz. (or 8 oz. preserves)	2 oz. butter 4 oz. margarine 2 oz. cooking fats	20 oz. meat (canned): meat, fish rationed: on points, see others) 4 oz. ham or bacon (temporary increase: of 2 oz. a week for: 8 weeks August & September) 2 oz. cheese	2 oz. tea 14 pts. milk for in- fants $3\frac{1}{2}$ - 7 pts. for children 2 - 4 pts. for adults Dried milk 10 oz. per month during winter	Preserves - 1 lb. a month Eggs - 3 a week for children, others about 1 every two weeks. All processed foods on points ration which permits purchase of one pound each of canned meat, canned vegetables, dried fruits, beans and biscuits per month
Australia	16 oz.	6 oz. butter	48 oz. meat	2 oz. tea Priority distribution of milk to invalids, children and expectant mothers	
New Zealand	12 oz.	8 oz. butter	50 oz. meat (approx.)	2 oz. tea	
Elire	12 oz.	8 oz. butter		$3\frac{3}{4}$ oz. tea	
Newfoundland	16 oz.			1 oz. tea or 4 oz. coffee	

WEEKLY FOOD RATIONS IN SEPTEMBER 1944 (Cont'd)

COUNTRY	Sugar	Fats (1)	Meat	Cheese	Beverages	Others
Germany (2)	8 oz.	8½ oz. total fats	9 oz. meat 1 oz. cheese		2 oz. coffee substitute 6-9 pts. milk for children. 2 pts. per adult	Jam - 6 oz. Bread - 85 oz. All other foods rationed including restaurant meals, fresh vegetables and fruits. Eggs locally rationed 7-3/4 lbs. potatoes per week approximately
France (3)	4½ oz.	1¼ oz. total fats	4½ oz. meat 1-2/3 oz. cheese		1 oz. coffee substitute 3-9 pints milk for children	Bread - 74 oz. Most other foods rationed but supplies very scarce in cities
Poland (4)	3 oz.	4½ oz. for Pro-Nazi Poles none for others	3½ oz. meat		1 oz. coffee substitute milk locally rationed	Bread - 73 oz. Potatoes - approx. 4 lbs. Shortages in all foods

(1) Any fats not noted are unrationed.

(2) Germany, France and Poland - basic rations for ordinary adult noted; differentials allowed for workers and children.

(3) Since August 1944 food rationing in France has been placed under the different regional prefects who will decide the amounts and conditions of the various items. The amounts given here are those distributed nationally just prior to the Allied invasion, and are left in for purposes of comparison.

(4) Pro-Nazi Poles get higher rations; Jews get about half of the basic ration.

UNITED STATES

The gross national product of the United States has reached an all-time high. For the fiscal year 1944-45 it is estimated at \$200 billion - an increase of almost 130% over the 1939 level. Nearly half of this greatly expanded output is being used for war but civilian consumption has been maintained at a level comparable with the earlier war years and considerably above the pre-war level. Nevertheless, there have been shortages of many things, particularly metal durable goods such as automobiles and stoves, and even the greatly increased supplies of food, clothing and other non-durables have fallen short of the enormous military and civilian demands.

The battle against inflation in the United States has been fought with the same weapons used in the United Kingdom and Canada - control of prices, wages and rents, rationing of short supplies and, to a lesser degree, a comprehensive fiscal policy designed to siphon off surplus purchasing power. It is estimated that 46% of total government expenditure in the fiscal year 1944-45 will be met out of current revenue and a further substantial part out of borrowing from the public. Nevertheless, income taxes are not as high as in Canada and the United Kingdom and economic controls are subject to greater pressure from inflated civilian demand.

The United States stands seventh in the table of world cost of living indexes, with an increase up to July 1944 of 25.3% since August 1939, and, as has been pointed out above, three of the lowest indexes - those of Germany, Argentina and Uruguay - are unreliable and the New Zealand index not strictly comparable. Not only does her record compare favorably with those of other countries, but during 1943 the cost of living index rose only 3%, compared with a 7% rise in 1942 and a 9% rise in 1941. The upward movement of prices was slowed down mainly by an extension of price control, a more determined policy of enforcing price ceilings and limited use of roll-back subsidies.

The extension of price control to more commodities during 1943 consisted mainly of bringing farm products under control. Though a general price ceiling went into effect in May 1942, five months after the Canadian price freeze, farm products were not included nor could their prices be controlled until they had reached parity. As this level was reached or exceeded it became possible to control prices of livestock, fresh fruits and vegetables, cereals, etc. and thus stabilize the cost of food to consumers.

Improved enforcement of price ceilings was achieved largely by a change in method of control - away from the basic period ceilings toward community price ceilings for most foods; and, for many manufactured goods, dollars and cents ceilings at the producer level with control of distributors' markups. The result is a more enforceable system of price control which is more easily understood by retailers and consumers. It does, however, involve a greatly increased administrative burden of formulating and revising price ceilings, maintaining correct regional and store-to-store differentials, and in the initial stages resulted in somewhat higher prices than those prevailing in the original basic period (March, 1942).

Consumer subsidies have been used effectively to roll back the prices of some foods and to stabilize others, but their use was restricted by the opposition of Congress and pressure from farmers and businessmen. Labor and consumer groups, who emphasize the importance of holding down living costs, favor an extension of subsidy programs if necessary to achieve this purpose. Subsidy opponents, particularly the farm bloc, urge that workers' incomes have increased sufficiently to enable them to pay higher food prices - average weekly earnings in manufacturing industries had risen 4.6% in 1943 over 1941, as compared with a 17.5% rise in the cost of living. Labor on the other hand points to the very favorable position of the farmer with an increase of 63% in cash income in 1943 over 1941, the result largely of higher prices since food production showed an increase of only about 13%. The result of this opposition by farm and business groups has been continuous difficulty for the administration in using subsidies to support price controls.

Further pressure on the stabilization measures have been exerted by labor's demands for higher wages. Wage rate advances have been limited to 15% of the January, 1941 levels, which compensates workers for the increase in cost of living between that date and May 1942, when the price ceiling was introduced. For some workers have been pressing to have the limit raised to compensate for the full advance in living costs since January 1941. Lately an attack was launched on the official cost of living index. Labor groups allege that the index grossly under-estimates the increase in prices and that the actual rise up to May 1944 had been 43.5% instead of the 23% shown by the official index.

Supplies of civilian goods have been maintained better in the U.S. than in most of the other belligerent countries and retail sales continued to rise during 1943 (an increase of 9% in value over 1942) although production of durable goods such as automobiles, trucks, bicycles was virtually stopped. The increase in sales was due partly to higher prices, but there was some increase in real consumption, part of which came out of existing stocks. Retail inventories were 4% lower at the end of 1943 than the end of 1942 in contrast with the rapid accumulation of goods in the two previous years. With the exception of durable goods, the main deficiencies in civilian supplies have arisen from shortages of low-price lines, quality deterioration and the ill adjustment of supplies to population shifts. A program to increase production of low-priced clothing items was initiated toward the end of 1943 and the restrictions on production of consumer durables and other metal goods are being lifted as the shortages of materials ease.

Although total food production in 1942 broke all previous records, and rose still further (by 5%) in 1943, food rationing has been more extensive than in Canada. In spite of more comprehensive rationing in the U.S. per capita civilian consumption is approximately the same, and for some items, higher than in Canada. In addition to sugar, meat, butter, canned milk, canned fruit and preserves (which have been rationed in Canada), rationing has been extended to canned vegetables, dried fruits and vegetables, canned meats and fish, cheese and a number of miscellaneous items. Sugar is rationed by coupon on a straight quantity basis and the other foods under two points ration schemes. The first for canned and dried fruits and vegetables was introduced on March 1, 1943, the second for meats, fats, cheese and canned fish, on April 1.

The points system was adopted as a means of adjusting supplies to varying food consumption habits, of ensuring the movement of perishable goods and, in some cases, because supplies were too short to be rationed in a specific quantity. Butter, for example, was included with other fats on the points system partly because the per capita allowance would have been little more than $\frac{1}{4}$ lb. a week and partly because the regional differences in fats consumption, (butter as against margarine, vegetable oils and lard), were pronounced. The chief difficulty of the schemes has been that they afford a very loose adjustment of supplies to demand. Points have made shopping very complicated for the consumer, and have accentuated the burden of coupon handling for the retailer. To cut down the difficulties freely exchangeable "tokens" have been introduced for making change and coupons worth ten points each are being used.

Many foods were sold point free during the summer of 1944, and more recently several items were removed from rationing altogether. Canned vegetables, except canned tomatoes, and jams, jellies and fruit butters are no longer rationed. Dried and frozen fruits and vegetables have been sold point free all summer, although these may be given point values before the end of the year. Canned fruits and juices are the main processed foods rationed at the moment.

The meat ration was also eased this summer. Beefsteaks and roasts were the only items rationed for several months. No other beef items have been brought back on the ration and all cuts of the lower grades of beef are now being sold point free. Similarly, the better grades of lamb and all grades of pork - steak, chops, roasts and hams have been brought back on the ration. Mutton, veal, variety meats and canned meats are sold point free.

Lard has been taken off the ration, but butter, shortening, canned milk, canned fish and cheese are still rationed at approximately the same level as when rationing was introduced.

Gasoline and fuel oil have been rationed and many durable goods, such as typewriters, farm machinery, tires and tubes, etc. have been rationed on permit systems similar to those in effect in Canada. In addition, footwear (except slippers, novelty shoes and some low-price lines) has been rationed by coupon.

UNITED KINGDOM

Because the people of the United Kingdom have been in the front line they have had to undergo far more serious hardships than those experienced on this side of the Atlantic. In spite of the reduction in shipping available for consumer goods, the wholesale destruction of property by enemy bombing and the emphasis on production for war, the consumer's lot has been made tolerable by the fact that the government and the people have made a real effort to prevent serious inflation and to maintain supplies of the necessities of life.

In terms of war expenditure as compared with national income, the British war effort is not much larger than that of Canada and the U.S. -- in all three countries war expenditures are approximately half of the national income. But in terms of sacrifice on the part of the civilian population the British effort is, in fact, much greater. In Canada and the U.S. increased production has more than doubled the national income, and civilian consumption of goods and services, (with a few such exceptions as gasoline and metal consumer goods) is above pre-war levels. In the U.K. the increase in production of war materials has been made, in part, by cutting deeply into civilian supplies. Production of all consumer goods except food has been curtailed and, to save manpower and factory space, concentrated in a relatively small number of factories. Rationing is more extensive and a great many articles have been unobtainable or very scarce for the past three years. In the circumstances, controlling inflation has been a most difficult undertaking and though the record falls short of perfection a remarkable measure of success has been achieved.

Basic to the anti-inflation programme has been the policy of financing the war and draining off purchasing power by higher taxes. The income tax is much the same as in Canada, and in addition there is a purchase tax ranging from 33 1/3 to 100% on many not-strictly-essential consumer goods.

The British people, perhaps because they were closer to the effects of inflation in Europe after the last war, have strongly supported the government's efforts to prevent its recurrence. Public support has facilitated enforcement of price control and rationing regulations. Wage increases have been limited by a voluntary agreement with trade unions rather than by legislation. Wage rates in April 1944 had, however, increased by 40% over the pre-war level and the Chancellor of the Exchequer, in his recent budget speech, stated that further increases might make it impossible to hold prices at their present level and envisaged an increase in the cost of living of as much as 5% if the upward trend of wage rates continued at its recent rate.

The cost of living index in August 1944, was 30% above August 1939, an increase of .7 over the previous month. Because of the method of computing this index it does not reflect the entire increase in retail prices of goods and services. Food constitutes 60% of the weight and only 14 food items are priced. The rest of the weights in the index are based on the purchasing habits of working class families prior to 1914 and many of the articles now in popular use are not included. It is estimated, for instance, that the price of household furnishings, clothing, drugs and toiletries, and other articles outside the food group have risen, on the average, by 75 to 100% over pre-war levels. Because they receive such a small weight in the official index they have been responsible for only a slight upward pressure. The index is, for the most part, stabilized by rigid control over the prices of staple foods. The government purchases almost all imported foods and subsidizes both these and home-produced staples. The total cost of subsidies, in which food is the major item,

was £204 million during the fiscal year ended March 31, 1944. As noted above, the government has announced that it may permit the cost of living to rise slightly rather than pay more subsidies to offset further increases in wages and import prices.

While price control in the United Kingdom is now so extensive that it approaches in effect an overall ceiling, it was extended piece-meal and many prices reached very high levels before being brought under control. Fresh fruits and vegetables, furniture, household equipment and second hand goods of all kinds are typical of articles which remained outside the scope of price control during the first two or three years of the war. Because almost everything was in short supply, such prices rose rapidly and, though they are now controlled, they are much farther above pre-war levels than the items included in the official index.

In the case of rent control, rents were frozen only for unfurnished dwellings. Freedom to increase rents for furnished dwellings and the fact that the housing shortage has been aggravated by enemy bombing, has made rent control very difficult to enforce.

Rationing has been applied to almost all foods except bread, potatoes, fresh vegetables and home grown fruits. The rations are regarded as adequate for normal nutritional needs and extra food can be obtained off the ration in the form of bread and potatoes, which are plentiful, or in restaurant meals. A priority scheme provides oranges, cod liver oil and extra milk for mothers and children; industrial canteens have been established to provide extra off-the ration meals for workers in heavy industry. The government has direct control over supplies, prices and distribution of all the staples by means of purchase and resale programmes. Food controls are well enforced and popular with the people and in spite of the difficult circumstances the general level of nutrition is believed to be better than before the war. The chief complaint is that the diet lacks variety - the few luxury foods which are not rationed are difficult to obtain and very expensive.

Clothing has been rationed since June, 1941, and while the ration is meagre, the "utility" program has helped to ensure that consumers obtain needed clothing of certain quality standards at controlled prices. Clothing prices had almost doubled before the utility program was introduced and though they have subsequently been reduced the official index in June 1944, was still about 65 per cent above pre-war. The present ration is regarded as slightly lower than a wardrobe replacement level and supplements have to be provided for children and for workers in heavy industry. Production of household textiles has been curtailed and made subject to utility specifications and, while only towels, and yard-goods are included in the clothing ration, supplies of all articles are extremely short.

The increased demand for furniture, partly as a result of air raid damage far outstripped the production quotas and the results were maldistribution of new supplies and exorbitant prices for second hand articles. To ensure that essential needs were met, a utility program and rationing were introduced in January, 1943. Only utility lines may now be produced and sales are restricted to new households and families who have been bombed out. The ration allowance provides only the bare necessities and only for the two priority groups - the average person who needs to buy furniture must still depend on the second hand market where prices are very high.

THE BRITISH COMMONWEALTH

Canada, Australia, New Zealand and, to a lesser extent, South Africa, have all been confronted with similar wartime economic problems. The circumstances which existed before the war and the changes which have resulted from the war have been the same in many important aspects. Canada, Australia, and New Zealand, were all large exporters of food and importers of manufactured goods. At the outbreak of war all three dominions began to mobilize their manpower and other resources for war. Industrial activity was stimulated, primarily the production of munitions but also to meet the increased demands for consumer goods which arose out of the expansion of employment and incomes. Food production has been increased in all cases, both to meet export commitments to the U.K. and to fill the larger domestic demands of

the armed forces and the civilian population.

With the exception of South Africa, wartime economic controls have developed along similar lines in Canada and the other dominions. The war efforts have been financed in part by greatly increased direct taxation and serious inflation has been prevented by control of wages, prices and rents. Rationing has followed the same pattern, with gasoline, tea and sugar being rationed first and the foods produced domestically in large quantities (meat and butter) being added only recently. Australia and New Zealand have both rationed clothing on a fairly generous basis.

Canada had adopted an over-all price ceiling well in advance of Australia and New Zealand but both dominions now have adopted similar techniques, though in New Zealand the stabilization program is tied in more closely with the new wartime cost of living index. All three use subsidies on an extensive scale to offset increased cost of imports and to stimulate food production. In addition Australia, for a short time, paid subsidies to cover wage increases in high-cost manufacturing industries. Price control in South Africa is less extensive and less rigidly administered than in the other dominions.

Australia

The strain of war on the Australian economy has been increased greatly by the outbreak of war in the Pacific. Prior to that time, Australia was supporting an army of considerable size, increasing munitions production and exporting agricultural products to the U.K. Subsequently the demands for food, clothing, services, transportation, etc., have been very much increased by the presence of American armed forces. During the present year reciprocal aid provided to the U.S. is estimated at \$100 million, about one-sixth of the Commonwealth's total war expenditures.

Price control was introduced at the outbreak of war but until April, 1943, there was no rigid over-all ceiling. Prices of some staples had been fixed but for the most part prices were adjusted upwards to cover increased costs of imports, shipping charges, higher labour costs, etc. Subsidies were paid mainly on agricultural products and no over-all policy of subsidizing imports had been adopted. The cost of living index stood at 122.5 (August 1939 = 100) when the freeze came into effect in April, 1943. Subsequently it moved up two points but the rise was offset by a reduction of the wartime sales tax on clothing, subsidies on imports of rayon and cotton and subsidies to cover increased wages (which rose in line with the rise in the cost of living index) were temporarily made available to firms which would otherwise have been forced to raise prices. Prices of tea and potatoes were also rolled back by subsidy. The result is that the index is now back to its April, 1943 level - 22.5% above pre-war (Feb. '44). The government has announced its intention to continue this rigid administration of the price freeze and to hold prices at their present levels both for the duration and after the war. There is, in addition, some measure of control over sales and prices of real estate.

Food shortages are becoming increasingly numerous in Australia. Tea and sugar have been rationed for some time, butter was added late in 1943 and in January of this year meat was rationed. Supplies of eggs and dairy products have been insufficient for some time and the distribution of fluid milk to urban consumers was controlled by a priority scheme during the winter months. Heavy military demands for fruits and vegetables and the use of large quantities for export (in dehydrated or other processed form) have very much reduced the quantities available to the civilian population.

Australia's clothing ration, which went into effect in June, 1942, covers all household textiles as well. The coupon allowance, however, is fairly generous and provides about twice as much as the British ration. Other measures to conserve textiles have included the simplification of designs and the prohibition of some luxury items.

Rationing also covers gasoline and tobacco.

New Zealand

Insofar as stabilizing the cost of living index is concerned New Zealand has been somewhat more successful than Canada. The index now stands at 13.9% above August 1939. For the reasons outlined above it is not strictly accurate to make direct comparisons between the present New Zealand index and the Canadian or other indexes which are still computed on a pre-war basis. Nevertheless, the stabilization program for incomes, prices and rents, introduced in December 1942 when the new wartime index was adopted, seems to have halted the upward movement of the cost of living.

A good deal of the administrative machinery essential to price and rent control, control of imports and exports, standardization of consumer goods, etc., was already in existence in New Zealand prior to the war. Price control legislation, which went into effect almost immediately after the declaration of war, limited price increases to an amount sufficient to cover unavoidable increases in costs. This policy has now been replaced by more rigid control for prices of essentials but luxury items and luxury types of furniture, clothing, etc. continue to be controlled by the former method. These latter increases are not reflected in the new wartime index which includes only standardized types of manufactured goods. Recently, real estate prices and sales have been brought under control.

Though New Zealand has, since the outbreak of war, exported large quantities of food and raw materials, mainly to Great Britain, the pressure on civilian supplies did not become serious until Japan entered the war. The presence of invasion forces in the Pacific has further increased the demand, particularly for food, and rationing has been extended to butter and meat. Tea, sugar, clothing and gasoline had previously been rationed.

South Africa

As in the case of the other dominions, the war has meant increased industrial activity in South Africa. The expansion has taken place not only in munitions production but in the manufacture of industrial equipment and consumer goods of many types which had previously been imported. Because of her geographical position, South Africa has been called upon to provide repair facilities for mechanized equipment, to construct military training establishments, to provide food for ships' stores and prisoners of war, and to meet a variety of other wartime demands.

Although a substantial part of the export market for foods has been cut off by the war, food production has had to be maintained to meet the expanded civilian and military demands. The wartime problems confronting the farmer have been similar to those in Canada and other agricultural countries - the movement of workers off the farms to the war industries in urban centres, and the shortage of machinery, equipment and fertilizers (most of which the Union normally imported.)

One result has been the virtual disappearance of unemployment, accompanied by increased employment of female workers and a generally higher level of wages. Some of this increased purchasing power has found its way into the treasury via moderately increased income taxes, substantially higher customs duties and government loans.

Though the official cost of living index showed a rise of only 29% at April 1944, it is not regarded as reflecting all of the price rise. As an indication of the dissatisfaction with the official index, the South African Trades and Labour Council has estimated the increase in food prices in Johannesburg at over 50%, and the increase in clothing prices at approximately 100%. New lines of manufactured goods now being produced in the Union are generally higher in price and lower in quality than those formerly imported.

The price control activities of the government have been principally an attempt to control profits. In spite of the fact that a good deal of price-fixing machinery (set up to subsidize exports and maintain prices of farm products) was in existence before the war, it has been used only to a limited extent to prevent wartime increases. Wages have been stabilized

to some extent and distributors' profit margins controlled but other cost increases have been allowed to reflect themselves in higher prices to the consumer.

In spite of recurrent shortages of most staple foods and other consumer goods there is almost no rationing or control of distribution. Only gasoline is rationed at the consumer level but the use of several raw materials in manufacturing is controlled. There has been a considerable amount of public demand for controls to ensure that scarce goods would be more fairly distributed but the government has stated that no suitable administrative machinery exists and that wide differences in consumption habits make food rationing impracticable.

Newfoundland

The fact that inflation has reached fairly serious proportions in Newfoundland is explained in part by very much expanded purchasing power and wartime conditions which have made it very difficult to obtain increased supplies of imported goods. Moreover, the lack of well-developed administrative machinery and trained personnel has made it impossible to impose a comprehensive system of economic controls. The most important single factor has probably been the increase in purchasing power as a result of employment provided by U.S. and Canadian defence projects. Wages have been relatively high in contrast to the very low incomes and unemployment which prevailed before the war.

In addition, substantial numbers of Canadian and American servicemen have been stationed in Newfoundland and they and their families have created still further pressure on the limited supplies of consumer goods. While a few foods are produced domestically, most of the country's requirements must be imported. Shipping difficulties have cut off normal sources of supply and shortages in exporting countries, particularly Canada and the United States, have limited Newfoundland's ability to increase her imports.

The result has been higher prices for all consumer goods in Newfoundland - enhanced, to some extent, by higher Canadian and American export prices and high wartime transportation costs. But prices have been forced up still further by tariffs, most of which are ad valorem, and by the tendency of distributors to increase their markups. The official cost of living index, which covers only the city of St. John's stood at 161 in July, 1944, (Oct. 1938 = 100).

Until May, 1942, price control had been applied to only a few staple foods. Since that time it has been extended, both by the fixing of specific retail and wholesale maximum prices and by control of markups. However, in the absence of import subsidies, prices have continued to move up with landed costs and enforcement of the regulations has been ineffective.

The pressure of very much increased demand on supplies only slightly larger than pre-war has necessitated rationing of tea, coffee, sugar and footwear. Other distribution controls have been designed to ensure supplies to remote areas, particularly places which are isolated during a large part of the year.

Eire

Inability to obtain sufficient imports has, in Eire as in Newfoundland been a prime cause of wartime price increases. The circumstances differ, however, and while both countries lack imported consumer goods, a more serious problem for Eire is the shortage of imported raw materials on which much of her industry is based (e.g. coal and textiles). The result has been a considerable increase in unemployment and only a slight increase in wage levels while, at the same time, prices have been steadily rising and shortages becoming more and more acute.

Some administrative machinery for controlling prices was in existence prior to the war and a measure of price control has been in effect since the beginning. It has consisted largely of specific maximum prices for certain essential articles, particularly foods, and has not been accompanied by strict enforcement. Prices of staple farm products have been increased

in the hope of stimulating production to make up the deficiency in imported food supplies. In February, 1944 the cost of living index was 71% above the first 6 months of 1939.

In an effort to control the distribution of very short supplies rationing has been instituted for several foods, clothing and footwear, fuel and soap. Rationed foods include tea, sugar and butter; every type of fuel - coal, gas, electricity, kerosene, gasoline - is either rationed or restricted to the most essential users. As in the case of price control, enforcement has not been too strict and rationing has not prevented the diversion of substantial supplies to black markets and the consequent inequities in distribution.

SOUTH AMERICA

The general picture of inflation and the economic effects of the war are similar in all the countries of South and Central America. Unlike most of the rest of the world, their expenditures for war have been relatively small and while this has meant less disruption of the civilian economy the absence of a war incentive has hampered any vigorous attempt at economic stabilization. Moreover, most countries lack the type of administrative organization necessary for comprehensive economic controls.

The most important single inflationary factor in Latin America has been the maintenance of export trade while imports have declined seriously. War demands, mainly in the U.S. and the U.K. for food and materials have meant prosperity for almost all the major export industries. Though the volume of exports has been limited by shipping difficulties their value has been maintained both by very much enhanced prices and a shift to higher-priced commodities. On the import side, normal sources of supply have been cut off by the war and demand has shifted to the U.S. and, to a less extent, to the U.K. War needs in both of these countries have necessitated export controls which have severely restricted the supplies available to Latin America.

To overcome the shortages resulting from inadequate imports, particularly in the case of manufactured consumer goods, domestic industry has been greatly expanded. In Brazil, for example, new industries (e.g. textiles, footwear, glass products, chemicals, etc.) have considerably reduced reliance on imported supplies. In all the other republics, to varying degrees, there has been a similar shift toward industrialization, encouraged in most cases by government policy. More recently attempts have been made in some countries to increase domestic supplies by a reduction of exports. Exports of certain articles have been prohibited and export taxes have been increased or premiums reduced.

Another effect of the excess of exports over imports has been a large accumulation of gold and foreign exchange. At the end of 1943 total holdings were estimated at the equivalent of \$3 billion, most of which was American dollars except in Argentina where sterling balances were substantial. Some countries (notably Argentina) are using these balances to repatriate foreign debts but the major result has been an inflationary credit expansion. In addition to the favourable trade balance there has been an influx of capital from occupied Europe and from countries where income taxes are high. Most countries have tried to reduce the inflationary effects of the inflow of money from these two sources, usually by requiring the recipients to purchase government bonds.

Further inflation has been caused by factors not directly connected with foreign trade. Importers' laid down costs have risen as a result of wartime increases in shipping costs and higher prices in exporting countries. But in addition to this rise, the tendency to profiteer in a seller's market has forced prices of all scarce items up much further. Most of the Latin American countries have some form of price control and several have decreed a general price freeze. As a general rule price control measures have not been adequately enforced.

Government activities, of a civilian as well as a defence nature, have increased with further inflationary effect. Public expenditures are financed almost entirely by indirect taxes and borrowing, and the increase has been

accompanied by expansion of credit and increased commodity prices. Income and profits taxes exist in most cases but the rates are low and they affect a relatively small part of the population.

Shortages of consumer goods, swollen purchasing power and inadequate price control have inevitably created mal-distribution of supplies. There have been no attempts at comprehensive rationing and the few ration programs which have been introduced have been widely evaded.

The hardships resulting from inflation are, to some extent, mitigated by the fact that for a large section of the population food, clothing and shelter are domestically produced and either do not enter into trade or are in adequate supply at only slightly enhanced prices. The most serious price rise has been in manufactured goods, principally imports, and many people buy very few of these things. There is, however, some popular demand for most of them and the rise in prices has not been matched by a rise in workers' incomes. Increases in both wage rates and the number of persons employed have been smaller than in countries such as Canada where the pressure of war demand has been greater and price control more effective.

Argentina

In spite of a variety of Government controls, the war has resulted in inflated prices for most commodities in Argentina. Neutrality, while it has permitted a rapid expansion of civilian industry, has neither guaranteed adequate supplies of imported goods and materials nor prevented price increases. Prices of imports have risen greatly but a large section of the population depends almost exclusively on home-produced food and clothing and has, consequently, suffered a less serious rise in living costs.

Manufacturing industries, e.g. paper, textiles, cement, glass, etc., have been encouraged and have expanded rapidly. The output has, in part, been exported at much higher than pre-war prices but a substantial part has been retained in the domestic market to replace imports which have cut off or curtailed by the war. As the war has progressed, expansion has been slowed down by shortages of imported materials. Shortages of rubber, machinery, lubricants, gasoline and other fuels appeared first and have continued serious. The Government has controlled the distribution of raw materials at the manufacturing level and has attempted to ration gasoline and tires to consumers but only minor restraints have been placed on their rising prices. In the absence of subsidies or effective control over importers' and distributors' mark-ups, prices of imports had more than doubled between 1939 and mid 1943.

Agriculture has enjoyed much higher prices for exports of meat and dairy products but grain exports have been curtailed both by lack of shipping and poor crops. During 1942 and 1943 the Government supported grain prices by purchasing part of the crop, and large quantities of wheat, corn and flaxseed have been used for fuel.

The cost of living index, which had risen 19% over 1939 in May of last year, has subsequently been reduced by a decree requiring rents to be lowered by as much as 20%. By April 1944, the index was 109 (first six months 1939 = 100). This index, which represents prices in Buenos Aires only, is based on a low-income budget, covers only a few staples and is not much affected by the prices of imported goods. As an indication of this, the index of wholesale prices of non-agricultural products doubled between 1939 and March 1943, while the cost of living index rose only 19%.

Brazil

Although Brazil has issued no official cost of living figures for some time, unofficial sources estimate the rise in living costs from 1939 to 1943 at between 70% (prices of home-produced goods only) and 100% (prices for all goods, including imported ones). Formally at least, food prices are controlled under specific orders fixing both a producer's minimum price and a retail maximum, with controlled mark-ups for distributors. A decree is in effect which prohibits price increases above November, 1943, levels, replacing an earlier ceiling based on December, 1942, prices. As an enforcement measure, last year a few government markets were opened in Rio de Janeiro to supply essential foodstuffs at ceiling prices. But the

impression prevails that legal maximum prices are widely disregarded. Though most industries are enjoying a wartime boom the rising cost of living has not been matched by a similar increase in wages for either agricultural or urban workers.

In addition, supplies of some goods are short and the problems of distribution have been worsened by shipping difficulties, which have both reduced imports and curtailed postal traffic. The difficulties of distribution have led to the rationing of sugar, butter and bread. Sugar rationing was introduced in May, 1943, the ration being about 3/4 lb. per person per week. Bread and butter ration were introduced (temporarily) somewhat later. Apart from these foodstuffs the only goods rationed are gasoline, gas and to a small extent, pure alcohol.

RUSSIA

Since the outbreak of war in 1941, the productive resources of the Russian economy have been diverted to war purposes to the maximum possible extent. The volume of production of consumer goods has been held at an irreducible minimum. Moreover, there were no substantial inventories of consumer goods because, since 1928, priority has been given to building up the country's capital equipment. The result has been a "seige economy" standard of living for the Russian people. The inflation which might have resulted from such shortages of supplies has been prevented by strict government control and planning of all economic activities.

Production is planned by the State to provide the minimum essential quantities of food, clothing and other consumer goods. These supplies are distributed by the State against ration documents at controlled prices which are only slightly above pre-war. The small quantities of goods which are produced by individual firms above their quotas in the national production plan and agricultural produce raised on the private land plots of collective farmers are not considered part of the national supply and may be kept by the producer for his own use or sold on the "free market". Since supplies are strictly controlled and almost all consumer goods rationed and sold through state-owned shops, the volume of free market sales is relatively small.

Food and all other essential consumer goods are rationed on a differential basis with the size of the ration depending on age, occupation and efficiency. Rationed foods include bread, meat, fish, fats, sugar, eggs, rice and other cereals and milk. Fresh fruits and vegetables are unrationed but are almost unobtainable. All rations are sold in State shops but there are separate shops for different categories of workers. Those whose work is regarded as most important from a national point of view, have larger rations and their stores contain a wider variety of higher quality goods. In conjunction with wage incentive programs, workers who increase output get not only more money but also larger rations.

Many urban dwellers find it necessary to supplement their rations on the free market, where no ration coupons are required but prices are uncontrolled. Free market prices are, in fact, many times higher than official prices and these sales of privately-owned foods have permitted farmers to accumulate large quantities of currency.

Since factories are state owned and the prices the government pays for war goods include no profits or rents, government spending is in effect wage payments. Wage rates in factories have been maintained, if not increased, during the war and the number of workers has increased. In addition men in the Red Army are paid at the same rate as factory workers. To finance these outlays the State has had recourse to the printing press, so that on the one hand production of consumer goods has been cut down while on the other wage payments have increased, resulting in an enormous increase in currency in circulation. In six months of 1943 more money was subscribed to State loans than circulated within the entire country in 1936.

However, the implications of currency inflation in the U.S.S.R. are less serious than a similar situation in a capitalistic economy. Since all production is planned by the State, wages and prices fixed accordingly, and the minimum requirements of the population ensured by rationing,

there is less spiralling of the price rise with little consequent dislocation of the economy. The main attention, therefore, has been focused on the problem of distributing the reduced supplies of food, clothing and other goods in such a way as to maximize the efficiency of the whole population; the question of mopping up surplus spending power has been of lesser importance.

The pre-war method of bridging the gap between excess purchasing power and the supply of goods, a sales tax imposed on all consumer goods, has been continued with some increase in rates to offset the diminution of supplies. The tax on some goods amounts to over half of the retail price. To absorb the greatly increased volume of money put into circulation as a means of financing the war, a 10% surtax has been placed on all incomes. This tax simply amounts to an overall wage reduction of ten per cent, and there is no progressive income tax since this would offset the system of incentive wage schedules. There has been a large volume of subscriptions to State loans and outright gifts to the Red Army. These State loans, which are subscribed entirely out of what would otherwise be consumer purchasing power, are expected to provide approximately 12% of State revenue in 1944.

GERMANY

The following paragraphs on Germany and the Occupied Countries were written before the allied invasion and are rapidly becoming out-of-date. They have been left in this form not only because it is almost impossible from available sources of information to adjust the picture to present conditions in Europe but because the description of conditions under Nazi rule is still of interest for purposes of comparison.

Though Germany has had a strong stabilization policy the value of money has declined steadily as the scarcity of consumer goods has worsened. Though the official wholesale price index has remained almost unchanged since 1939 and the cost-of-living index has gone up only 12% neither of these can be regarded as indicative of the actual rise in prices. Money in circulation has increased steadily - in spite of wage control, heavy taxation and a variety of compulsory payroll deductions. At the same time production of consumer goods has been reduced well below what might be regarded as an essential minimum and almost everything rationed. In these circumstances money ceases to have any value as purchasing power and strict measures have been adopted to prevent a flight from the currency which, once started, would soon reach uncontrollable proportions.

In the democracies price control was adopted only after the diversion to war production was well underway, and when shortages had made inflation imminent. In Germany on the other hand, price control was an important part of war preparation, and the first general price freeze was put into effect in 1936. The ceiling has been rigidly upheld at the retail level, through compulsory margin reductions, subsidies and a very strict enforcement policy. The Gestapo deals with "irregularities", and execution is not an uncommon punishment. Wages and rents have been as strictly held down. In addition to heavy taxes and compulsory savings, workers are "expected" to contribute heavily to certain Nazi relief funds, the most important of which is the "Winter Relief".

The basis of the stabilization program is, of course, a very stringent financial policy. Tax rates are very high and over 50% of war expenditures are covered by tax collections. There is some voluntary investment in government bonds but the volume has been declining as people have begun to doubt their future value.

All foods, including restaurant meals, are rationed on a strict differential basis; the adult clothing ration has not been honoured since mid 1943, and supplies go mainly to air-raid victims; most other consumer goods are rationed by certificate of need. All consumer goods, not only heavy durable goods, but dishes, knives and forks, pots, pans and kettles, are wearing out and are irreplaceable. Even a certificate of need is no longer a guarantee that supplies will be obtainable and recently all

purchases have had to be recorded on a new "global" ration card. Not only is it difficult to buy new clothing, but all wardrobes over a certain size have been confiscated and semi-compulsory collection drives have reduced even moderate wardrobes to a bare minimum. Fuel has also been stringently rationed.

Indicative of the government's concern over the inflation danger is the fact that sales of real estate, (except farm land to would-be farmers) have been prohibited. Barter, which was strictly prohibited, had to be permitted last spring, to ease shortages by a fuller use of second-hand goods.

OCCUPIED AND SATELLITE COUNTRIES

The governments set up in Nazi conquered countries have found themselves face to face with all the factors to produce inflation and none of the means to combat it. On the one hand, the high indemnities levied by the Nazis have strained the financial resources of the nations to the breaking point, and the reorientation of the entire economy to German war production has resulted in extreme shortages of all consumer goods; on the other, the political domination of the Nazis has deprived the governments of the support and confidence of their people necessary to administer effective economic controls.

The annual rate of exactions in Europe had reached \$9 billion by February of this year. Although over half of this sum was paid by France, the French levy was lower, on a per capita basis (\$123) than that of Norway (\$198), the Protectorate (\$189), Belgium (\$149) or Holland (\$132). The 1943 occupation charges paid by France actually exceeded the entire 1943 revenue and forced the government to borrow heavily to meet expenses. Although the amount of surplus spending power in the occupied countries is enormous it has been impossible to increase tax collections to any extent, and it is becoming more difficult to persuade people to invest in anything but goods. As the investment in government bonds on the open market continues to decline, it will be necessary to resort more and more to inflationary borrowing.

The marked increase in currency in circulation is largely due to the lavish expenditure by the Germans of the indemnity within the countries, and partly due to the "flight from money", the psychological accompaniment of inflation. This has resulted in a continual increase in both official and black market prices. The full extent of the price rise is seen best on the black market since what price control there is in the occupied countries is relatively ineffective and most goods are sold illegally or bartered. Prices on the black market in Holland, for example, are fifteen times higher than the official levels.

One of the usual aspects of inflation is strikingly absent in the occupied countries - wages, except those paid by the Germans for special services, have risen scarcely at all. Since food prices have at the same time risen astronomically, the normal distribution of income between the wage earner and the farmer has been disrupted in favour of the latter. In France, for example, farmers last year received approximately two-thirds of the national income in contrast to their pre-war one-third. This re-adjustment has probably been more pronounced in France than in any other country since industrial activity there has been curtailed most, in accordance with the apparent Nazi design to reduce France to a purely agrarian state.

Food production in the occupied countries has not only shown a net decline but their share of production has declined to an even greater degree as exports to Germany have increased. A comparison of food rations with export figures show very clearly that Germany has been enabled to maintain her rations by reducing food supplies in other countries to dangerously low levels. Although the French bread ration was 12 oz. a week less than the German ration in 1943, over 600,000 tons (22 mil. bus.) of wheat were exported to Germany. Germany's net imports of food in the year ending March 31, 1944, are estimated at over 10 million tons. Nearly one third, over 3 million tons have been requisitioned from France, about 1 million tons each from Bulgaria and Roumania, nearly 900 thousand from Poland, and over 600 thousand from Czechoslovakia.

Foods are short, but other civilian goods are virtually non-existent. What few have escaped the systematic looting of the Nazi's are bartered very dearly. Any possibility of resuming production in even essential lines has been cut off the requisitioning of raw materials, plant and labour for German war industry.

Over 5½ million foreign workers have been called up by the Nazis. By the end of 1943 over a million Frenchmen, about 450,000 Belgians and 350,000 Dutchmen were working inside Germany. Other workers mine Belgian and French coal for German industry, build ships in Dutch and Norwegian dock yards and railway rolling stock in Belgian steel works.

CHINA

Inflation in China is more severe than in any other country in the world, just as the disruption of economic life has been more complete. Large parts of the country, including all the pre-war industrial centres, have been occupied by the enemy, many agricultural areas laid waste, and Free China is almost completely isolated from the rest of the world. Transportation facilities are too inadequate to permit much trade between the provinces. Moreover the war has led to great population movements into areas where the food supply system is not geared to increased requirements. Hoarding, a result of the general uneasiness about future supplies, has been a contributory cause of price increases.

Prices in general rose roughly 100% in 1939, nearly 200% in each of the years 1940 and 1941, just under 100% in 1942 and just under 300% in 1943, according to reports prepared by the University of Nanking. Estimates of the cost of living index (1937 = 100) for Chungking in December, 1943, vary between 14,300 and 19,700. Prices differ widely between regions, Chungking placing 8th highest in a recent survey of 24 cities.

Because a large part of the population lives on a self-subsistence basis their living standards have not been reduced by the inflation as much as the price increases suggest. Independent workers, - artisans and coolies, - who bargain for their pay have managed to keep their incomes pretty much in line with prices. The worst hardship, however, has been inflicted on people whose salaries or wages increase more slowly, such as professional and clerical workers.

The government of Chungking is severely limited in its ability to halt the inflationary spiral. The country is still highly decentralized, so that the Central Government lacks both authority and machinery for effective control of supplies or prices. In addition its three principal pre-war sources of income - maritime revenues, taxes on industry in the treaty ports, and most of the salt tax - have been cut off. Price control laws have been passed, either freezing prices to a basic date or tying them to the level represented by food and salt prices in an effort to restrict price increases to about 10% a month. The Central Government has control over the prices of a few essential commodities - food grains, salt, coal, cotton and cotton goods, edible oils and paper. In Chungking prices on some 300 commodities are worked out by agreement between the municipal authorities and the merchants' guilds. Price control in the provinces is exercised by means of a network of provincial controls. Attempts are being made to enforce strict anti-hoarding laws.

In spite of government attempts to increase revenue and to keep down currency circulation by collecting taxes in kind, there has been no alternative to an increasing use of the printing press. In 1943 provision was made for the land tax to be paid in kind, and this year the government will not purchase any grains with actual cash. Of the rice and wheat to be collected almost half will be regarded as payment of the land tax and the remainder will be paid for with government debentures. A considerable amount of revenue is expected to be raised during 1944 by excise taxes on consumer goods and smaller amounts from income, inheritance and profits taxes.

